
**MUNICIPAL FINANCING
CORPORATION OF
SASKATCHEWAN**

2008 ANNUAL REPORT





LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 24, 2009

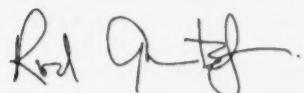
To His Honour
The Honourable Gordon Barnhart
Lieutenant Governor of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 2008, in accordance with **The Municipal Financing Corporation Act**. The financial statements included in this Annual Report are in the form approved by the Treasury Board and have been reported on by the Corporation's auditors.

I have the honour to be, Sir,

Your obedient servant,



Rod Gantefoer
Minister of Finance
And Minister Responsible
Municipal Financing Corporation of Saskatchewan

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

BOARD OF DIRECTORS

Honourable Rod Gantefoer
Chairperson

Honourable Bill Hutchinson

OFFICERS

Mr. Rae Haverstock
General Manager

Denise Macza
Assistant General Manager

Mr. Jim Fallows
Treasurer

Ms. Marsha Loraas
Secretary

CONTACT INFORMATION

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MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

HISTORY AND CURRENT HIGHLIGHTS – 2008

The Municipal Financing Corporation of Saskatchewan (the Corporation) was established to assist in making capital funds available for the financing of school, hospital and other essential construction and local improvement projects in cities, towns, villages and rural areas throughout the Province. The Corporation may borrow directly from private lending institutions or through the Department of Finance. The Corporation uses the funds borrowed to purchase a portion of the approved debentures sold each year by Saskatchewan local governments.

During 2008, the Corporation participated in the financing of 23 projects by purchasing \$16.0 million of debentures. Most of the debentures financed sewer and water projects or land development projects.

The Corporation's debenture holdings at December 31, 2008 totaled \$48.9 million, up \$12.8 million from the total at December 31, 2007.

The Corporation recorded net earnings of \$906,000 in 2008, which was similar to the surplus of \$897,000 recorded in 2007. The \$906,000 surplus did not differ significantly from the \$900,000 amount budgeted (see note 10 to the financial statements).

For 2009, the Corporation expects net earnings to be slightly higher than the amount recorded in 2008 due to the increase in the size of the Corporation's loan portfolio.

The Municipal Financing Corporation of Saskatchewan is administered by a Board of Directors through the use of staff and facilities provided by the Department of Finance. The Corporation incurred \$25,000 of administrative expenses in 2008. These expenses were for audit fees and the reimbursement of the costs to the Department of Finance of providing administrative services. The Directors of the Municipal Financing Corporation of Saskatchewan do not receive fees and, with the exception of interest paid on borrowed funds, the Corporation had no other expenses in the current year.

A table showing results of operations for 2008, as compared to the previous year, as well as a detailed listing of debentures purchased in the current year is presented on page 4.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

**COMPARATIVE TABLE OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31**

	<u>2008</u>	<u>2007</u>
(thousands of dollars)		
Amount of debentures offered to the Corporation	\$ 17,402	\$ 7,665
Prior year's purchase commitments carried forward	<u>965</u>	<u>390</u>
Total purchase commitments for the year	18,367	8,055
Prior year's purchase commitments from which the Corporation was released	340	0
Purchases completed	<u>16,027</u>	<u>7,090</u>
Purchase commitments outstanding at the year end	<u>\$ 2,000</u>	<u>\$ 965</u>

DEBENTURES PURCHASED IN 2008

(thousands of dollars)

City of Weyburn	\$ 4,800
R. M. of Big River No. 555	500
R. M. of Old Post No. 43	430
Town of Craik	265
Town of Dalmeny	3,238
Town of Duck Lake	1,080
Town of Kamsack	1,100
Town of Lafleche	125
Town of Martensville	405
Town of Midale	300
Town of Rocanville	252
Town of Rose Valley	850
Town of Wakaw	342
Town of Watson	236
Village of Buena Vista	622
Village of Clavet	370
Village of Margo	29
Village of McLean	400
Village of Mistusinne	183
Village of Paradise Hill	500
	<u>\$ 16,027</u>

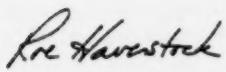
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared the financial statements of the Municipal Financing Corporation of Saskatchewan in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the previous year. Management is responsible for the reliability and integrity of the financial statements and all other information contained in this Annual Report.

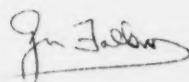
Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, management maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

Dudley and Company LLP, the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.



Rae Haverstock
General Manager



Jim Fallows, CA
Treasurer

March 24, 2009

AUDITOR'S REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Municipal Financing Corporation of Saskatchewan as at December 31, 2008 and the statements of earnings and reinvested earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Dudley + Company LLP

Regina, Canada
March 11, 2009

Dudley and Company LLP
Chartered Accountants

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF FINANCIAL POSITION

As at December 31

	2008	2007		
	(thousands of dollars)			
ASSETS				
Current assets				
Due from General Revenue Fund (Note 3)	\$ 1,646	\$ 105		
Interest receivable	1,105	969		
Municipal debentures receivable within one year	3,555	3,180		
Short term Investment	<u>0</u>	<u>1,935</u>		
	6,306	6,189		
Investments in municipal debentures (Note 4)	45,296	32,946		
Deferred financing charges	<u>64</u>	<u>75</u>		
	<u><u>\$ 51,666</u></u>	<u><u>\$ 39,210</u></u>		
LIABILITIES AND PROVINCE'S EQUITY				
Current liabilities				
Interest payable and accrued liabilities	\$ 393	\$ 351		
Long term debt payable (Note 6)	37,275	25,767		
Province of Saskatchewan's Equity				
Reinvested earnings	<u>13,998</u>	<u>13,092</u>		
	<u><u>\$ 51,666</u></u>	<u><u>\$ 39,210</u></u>		

See accompanying notes to the financial statements

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF EARNINGS AND REINVESTED EARNINGS

For the Year Ended December 31

	<u>2008</u>	<u>2007</u>
	(thousands of dollars)	
Revenue		
Investment income - municipal debentures	\$ 2,136	\$ 1,996
Investment income - short term		
investments, sinking funds and cash balances	85	61
	<u>2,221</u>	<u>2,057</u>
Expenses		
Interest on debt	1,290	1,135
Administration	25	25
	<u>1,315</u>	<u>1,160</u>
Net Earnings	906	897
Reinvested earnings, beginning of year	<u>13,092</u>	<u>12,195</u>
Reinvested earnings, end of year	<u>\$ 13,998</u>	<u>\$ 13,092</u>

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	2008	2007
	(thousands of dollars)	
Operating Activities		
Interest received from municipal debentures	\$ 2,066	\$ 1,889
Interest received from short term investments	52	54
Interest paid on debt	(1,300)	(1,043)
Payments to suppliers	<u>(25)</u>	<u>(25)</u>
Cash provided by operating activities	<u>793</u>	<u>875</u>
Investing Activities		
Purchase of municipal debentures	(16,027)	(7,090)
Proceeds from maturing municipal debentures	<u>3,302</u>	<u>2,876</u>
Cash used in investing activities	<u>(12,725)</u>	<u>(4,214)</u>
Financing Activities		
Issuance of long term debt	11,800	8,900
Repayment of long term debt	(262)	(173)
Repayment of short term debt	<u>0</u>	<u>(3,353)</u>
Cash provided by financing activities	<u>11,538</u>	<u>5,374</u>
Net (decrease) increase in cash equivalents during the year	(394)	2,035
Cash equivalents, beginning of year	<u>2,040</u>	<u>5</u>
Cash equivalents, end of year	<u>\$ 1,646</u>	<u>\$ 2,040</u>
Represented by:		
Due from the General Revenue Fund	1,646	105
Short term investments	0	1,935
	<u>\$ 1,646</u>	<u>\$ 2,040</u>

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

1. Significant Accounting Policies

Pursuant to standards established by the Public Sector Accounting Board, the Corporation is classified as a government business enterprise. These financial statements are prepared in accordance with Canadian generally accepted accounting principles applicable to for-profit entities.

Financial Instruments

The Corporation has implemented the following classifications:

- Short term investments are classified as "financial assets held for trading," so they are marked to market through net income at each period end. For the Corporation, the measured amount generally approximates the cost.
- Due from the General Revenue Fund and Interest receivable are classified as "loans and receivables." After initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Corporation, the measured amounts generally approximate their cost.
- Municipal debentures receivable within one year and investments in municipal debentures are classified as "held to maturity investments." After initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Interest payable and accrued liabilities, debt payable within one year and long term debt payable are classified as "other financial liabilities." After initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Sinking funds are classified as "financial assets held for trading," so they are marked to market through net income at each period end. Sinking fund assets are netted against long term debt payable because the Corporation has a legally enforceable right to set off the amounts and intends to realize the asset and settle the liability simultaneously.

On January 1, 2008, the Corporation adopted CICA Handbook section 1535 – Capital Disclosures, CICA Handbook section 3862 – Financial Instruments: Disclosures and CICA Handbook section 3863 – Financial Instruments: Presentation.

The adoption of these sections has affected the Corporation's presentation and disclosure, however there has been no effect on the Corporation's operating results.

Comprehensive Income

The Corporation does not have any comprehensive income and accordingly, it has not presented statements of other comprehensive income and accumulated other comprehensive income.

Deferred Financing Charges

Deferred financing charges relate to long term debt payable and are amortized over the term of the related debt.

Future Accounting Changes

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year.

At this time the impact on the Corporation's future financial statements is not reasonably determinable.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

2. Status of the Corporation

The Municipal Financing Corporation of Saskatchewan was established in 1969 pursuant to the provisions of **The Municipal Financing Corporation Act**. The Corporation's objective is to assist municipalities in financing their capital requirements.

The Corporation is a Provincial Crown corporation and is therefore not subject to Federal or Provincial income tax but is subject to Provincial corporation capital tax.

3. Due from General Revenue Fund

The Corporation's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Corporation's earned interest is calculated and paid quarterly by the General Revenue Fund to the Corporation using the General Revenue Fund's thirty day borrowing rate and the Corporation's average daily bank account balance.

4. Investments in Municipal Debentures

The Corporation invests in fixed rate debentures issued by cities, towns, villages, rural municipalities and school divisions throughout the Province of Saskatchewan. All debentures purchased by the Corporation must be approved by the Saskatchewan Municipal Board.

The Corporation has an investment in 95 (2007 - 82) debentures issued by 68 (2007 - 60) issuers with a weighted average yield of 5.30% (2007 - 5.63%) and maturity dates ranging from 2009 through 2028.

The carrying amount invested by issuer category is as follows:

	<u>2008</u>	<u>2007</u>
	(thousands of dollars)	
Cities	\$ 12,676	\$ 8,514
Rural Municipalities	1,007	97
Towns	22,523	16,201
Villages	5,058	3,474
School Divisions	<u>7,587</u>	<u>7,840</u>
	48,851	36,126
Receivable within one year	<u>3,555</u>	<u>3,180</u>
	<u>\$ 45,296</u>	<u>\$ 32,946</u>

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

The fair value of these debentures is \$52.7 million (2007 - \$37.9 million). This fair value is determined by discounting the debentures' future cash flows using investment rates presently available to the Corporation for investments with similar terms and remaining maturity. Prepayment rates and credit losses are assumed to be zero, based on the past experience of the Corporation. A one per cent change in the investment rates noted above would change the fair value of these debentures by approximately \$3.4 million. The Corporation measures its investments in municipal debentures at amortized cost using the effective interest method, so a change in the fair value of these securities would have no immediate effect on net earnings.

The Corporation's policy is to permit borrowers to redeem debentures prior to maturity. The redemption price is set at the face value of the debenture plus 50% of the difference between the face value of the debenture and its fair market value. During 2008, debentures with a face value of \$63 thousand (2007 - \$0) were redeemed for proceeds of \$65 thousand (2007 - \$0).

5. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions are as follows:

	<u>2008</u>	<u>2007</u>
(thousands of dollars)		
Interest on debt	\$ 1,290	\$ 1,135
Administration	20	20

Other amounts due from and to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

6. Debt

<u>Maturity Date</u>	<u>Rate (%)</u>	<u>2008</u>	<u>2007</u>
(thousands of dollars)			
General Revenue Fund (GRF)			
June 17, 2013	4.75	\$ 5,000	\$ 5,000
December 1, 2013	3.80	4,800	-
December 3, 2015	4.25	5,000	5,000
April 10, 2017	4.41	2,800	2,800
December 1, 2018	4.74	7,000	-
June 10, 2022	4.81	3,900	3,900
August 8, 2026	4.86	7,330	7,330
April 10, 2027	4.60	2,200	2,200
		38,030	26,230
Less: sinking fund balance		(755)	(463)
Long term debt		\$ 37,275	\$ 25,767

The fair value of long term debt is \$39.4 million (2007 - \$26.3 million). This amount is determined by discounting the debentures' future cash flows using borrowing rates presently available to the Corporation for debt with similar terms and remaining maturity. A one per cent change in the borrowing rates noted above would change the fair value of long term debt by approximately \$2.5 million. The Corporation measures its long term debt at amortized cost using the effective interest method, so a change in the fair value of long term debt would have no immediate effect on net earnings.

The sinking fund balance is reported at its fair value.

a) sinking funds

Under conditions attached to debentures with a term of ten years or more, the Corporation is required to pay annually into sinking funds administered by the Saskatchewan Ministry of Finance a minimum of one per cent of the original principal.

b) principal repayments and sinking fund installments

Principal payments and sinking fund installments for the next five years are as follows (in thousands of dollars):

2009	-	\$ 332
2010	-	332
2011	-	332
2012	-	332
2013	-	332

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

7. Financial Instruments

Management of Financial Risks

The activities of the Corporation result in exposure to three types of risk:

i) Interest Rate Risk

Interest rate risk is risk that the value of the Corporation's assets and liabilities will fluctuate due to changes in market interest rates. This risk exists because the maturity dates of the Corporation's assets and liabilities are not precisely matched:

Year of Maturity	Financial	Financial	Difference	Difference
	Assets	Liabilities	2008	2007
(thousands of dollars)				
2008	\$ -	\$ -	\$ -	\$ 5,838
2009	6,306	393	5,913	-
1 - 5 years	19,799	9,507	10,292	11,779
Thereafter	25,561	27,768	(2,207)	(4,525)
	<u>\$ 51,666</u>	<u>\$ 37,668</u>	<u>\$ 13,998</u>	<u>\$ 13,092</u>

The Corporation manages this risk by matching the maturity dates of material assets and liabilities to the extent possible.

ii) Liquidity Risk

Liquidity risk is the risk that financial obligations will not be met over the short-term due to lack of access to capital. This risk is managed by distributing debt maturities over many years, maintaining sinking funds on long-term debt issues and maintaining adequate cash reserves and an \$80 million short-term line of credit with the General Revenue Fund.

iii) Credit Risk

Credit risk is the risk that the Corporation will not receive payment in full for its short term investments or investments in municipal debentures.

For short term investments, this risk is managed by purchasing only investment grade securities for terms that do not exceed 90 days. At December 31, 2008, the Corporation had a maximum exposure of \$0 million (2007 - \$1.9 million) on its short term investments.

For municipal debentures, this risk is managed by legislative restrictions on the amount that can be borrowed by a municipality and scrutiny of all proposed transactions. Few of the Corporation's municipal debentures have a credit rating, however all are considered secure. At December 31, 2008, the Corporation had a maximum exposure of \$48.9 million (2007- \$36.1 million) on its investments in municipal debentures.

The Corporation has never experienced a credit-related loss.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

Other Information Regarding Financial Instruments

The effective interest rates on the Corporation's interest bearing financial instruments are as follows:

Investments in municipal debentures	5.30%
Long term debt	4.59%

The Corporation's financial instruments have the following carrying amounts:

	<u>2008</u>	<u>2007</u>
Financial assets held for trading		
- designated as such at January 1, 2007	297	\$ 283
- other	<u>2,104</u>	<u>2,220</u>
Total financial assets held for trading	<u>\$ 2,401</u>	<u>\$ 2,503</u>
Held to maturity investments	48,851	36,126
Loans and receivables	1,105	969
Other financial liabilities	<u>(38,423)</u>	<u>(26,581)</u>
Net carrying value of financial instruments	<u><u>\$ 13,934</u></u>	<u><u>\$ 13,017</u></u>

The Corporation incurred gains of \$85 (2007 - \$61) on its financial instruments held for trading.

Total interest income on financial assets not held for trading was \$2,136 (2007 - \$1,996).

Total interest expense on financial liabilities not held for trading was \$1,290 (2007 - \$1,135).

The Corporation had no fee income or expenses arising from financial instruments not held for trading.

The Corporation had no impaired financial instruments, so no interest income or losses were incurred from such assets.

8. Capital Management

The Corporation defines its capital as its reinvested earnings and its long term debt payable.

The Corporation strives to ensure that the interest rate on its investment in municipal debentures exceeds the effective interest rate on its long term debt. The Corporation also attempts to match the payments required to service its long term debt to the cash flows expected from its investments.

The Corporation is not subject to any external or statutory capital requirements.

The points noted above have not changed from the previous fiscal year.

Information on the specific management of financial risks is included in Note 7.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

9. Commitments

Prior to December 31, 2008, the Corporation had approved the purchase of debentures from certain local governments of which \$2,000 thousand were not purchased before year-end.

10. Operations Budget

	<u>Budget</u> <u>2008</u>
(thousands of dollars)	
Revenue	
Investment income - municipal debentures	\$ 2,080
Investment income - short term investments and cash balances	<u>75</u>
	<u>2,155</u>
Expenses	
Interest on debt	1,230
Administration	<u>25</u>
	<u>1,255</u>
Net earnings	<u><u>\$ 900</u></u>



